

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Otsego	County Allegan
Audit Date 6/30/04	Opinion Date 8/19/04	Date Accountant Report Submitted to State: 10/14/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Siegfried Crandall PC			
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		ZIP 49002-5599	
Accountant Signature 			Date 10/14/04

City of Otsego
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

**City Commission
City of Otsego, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Otsego, Michigan, as of June 30, 2004, and for the year then ended, which collectively comprise the City's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages i through viii and 23 through 24, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Otsego, Michigan's basic financial statements. The combining fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Otsego, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

August 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the City of Otsego's operations over the fiscal year and its financial condition on June 30, 2004.

Financial Highlights

- The City's total net assets increased \$384,791, or 3.2 percent, as a result of this year's operations. Net assets of the governmental activities increased \$300,831, or 5.3 percent, whereas net assets of the business-type activities increased \$83,960, or 1.3 percent.
- Of the \$12,344,257 total net assets reported, \$3,273,728 is available to be used to meet future operating and capital improvement needs.
- The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$533,392 which represents 25.6 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis introduces the City's basic financial statements that follow this section. These financial statements are in a new format implemented over this fiscal year to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Additional supplementary information is also included to provide a more detailed view of the City's financial structure and support to the information provided in the basic financial statements.

Because this is the first year of this reporting format, a comparative analysis of the basic financial statements was not possible. Comparative analyses of the basic financial statements will be made in subsequent years.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a format similar to that of private-sector financial statements. The Statement of Net Assets and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns that add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The Statement of Net Assets reports all of the City's assets and liabilities along with the difference between the two, which is identified as the net assets. This statement, for the first time, combines and consolidates short-term spendable resources (e.g., cash, receivables, inventory, etc) with capital assets. Increases and decreases in net assets may serve as an indicator over time as to whether the City's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position such as the status of the City's infrastructure and property tax base.

The Statement of Activities reports both the gross and net cost of the various programs or activities of the City that are funded by property taxes and other revenue sources. This presentation is intended to summarize the cost of providing the various governmental services. This statement also shows how the City's net assets changed over the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three types of activities:

1. *Governmental Activities.* These activities include functions most commonly associated with government (e.g., police, fire, public works, parks, etc.). Property taxes and intergovernmental revenues generally fund these services.
2. *Business-Type Activities.* These activities provide services that are funded by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services. The City operates two business-type activities that reflect the private sector type operations, water and sewer services. The City operates a third activity referred to as the Capital Project Fund which is classified as a business-type activity because it currently involves residential plat development which is recovered through the sale of lots.
3. *Discretely Presented Component Units.* Component units are legally separate organizations which the City (the City Commission) can exercise influence and/or for which the City is financially accountable. The City has one component unit, the Otsego Downtown Development Authority. The financial statements are primarily focused on the City, however, the component unit information is presented to show its activity and relative financial relationship to the primary government.

Fund Financial Statements

Fund financial statements are presented in a manner similar to the old reporting format of prior years. These detail the activity which has occurred in the City's most significant funds. The use of individual funds, or fund accounting, is necessary to track revenues and expenditures that are directly related to specific activities or required by statute/ordinance to be budgeted and accounted for separately. To be reported separately and considered as a major fund, however, a fund's total assets, liabilities, revenue or expenditures must be at least 10 percent of the total assets, liabilities, revenue or expenditures for all funds of that category or type.

The City's funds are classified into three categories which each use a different accounting approach:

1. *Government Funds.* These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements previously mentioned. The governmental fund statements, however, are presented on a modified accrual basis, which focuses on the short-term (60 day) sources and uses of available resources, as well as the balance of spendable resources at the end of the fiscal year. A review of these statements can show if there has been an increase or decrease in the resources available to continue providing services to our residents. The relationship between governmental activities reported in the Statement of Net Assets and Statement of Activities and the governmental fund statements is reconciled in the financial statements. Governmental funds include the General Fund, special revenue funds, capital project funds and debt service funds.

2. *Proprietary Funds.* Proprietary funds account for the expenditures involved in providing particular services to customers who are then charged fees calculated to recover the costs of operation. These funds use accrual accounting which is the same method used by private sector businesses. The City maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and land development services. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its DPW Equipment Fund which essentially functions as a motor pool. Because the equipment is rented by the hour to provide services which predominately benefit governmental rather than business-type functions, it is included within governmental activities of the government-wide financial statements.
3. *Fiduciary Funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. These funds are not reported in the government-wide financial statement because the resources reported here represent a trust relationship and are not, therefore, available to the City to provide services to residents. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Net Assets - Fiduciary Fund. This fund is also reported using accrual accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is necessary to understand the data reported in the government-wide and fund financial statements.

Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Supplementary Information

Following the required supplementary information are combining financial statements for non-major governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements. This section also includes governmental fund balance sheets, budgetary comparison schedules for each of the City's funds, and financial statements for the component unit.

Financial Analysis of the Government as a Whole

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Because of the new reporting format, a comparison to prior year figures would be difficult. However, a review of the Statement of Net Assets does favorably show a positive balance of all three of the government-wide columns (Governmental Activities, Business-Type Activities and Totals), as well as the Component Unit column.

In the City's case, assets exceeded its liabilities at the end of the fiscal year by \$12,344,257. However, the majority of the City's net assets (65.4 percent) represent an investment in capital assets (e.g., land, roads, storm sewers, water and sewer systems, buildings and equipment) less outstanding debt used to acquire or construct these assets. Because the City uses these capital assets to provide essential services to citizens, these assets are not available to be liquidated for future spending needs. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay the debt must be provided from other sources because the capital assets themselves cannot be used to satisfy these liabilities.

Except for the \$846,066 restricted for public works and public safety activities, the City may use the remaining balance of unrestricted net assets of \$3,273,728 (26.5 percent) to meet its ongoing obligations to citizens and creditors.

Statement of Activities

Governmental activities increase the City's net assets by \$300,831, thereby accounting for 78.2 percent of the total growth in the net assets of the City. Key factors for this increase are:

- Conservative budgeting, allowing for reduction in State Shared Revenues,
- Additions to fund balance for all funds, other than the Major Street Fund, as a result of holding spending levels at or below revenues received,
- The completion of the Dix and Washington Streets resurfacing project and the West River Street storm sewer construction projects. These projects increased expenditures because of construction, however, they also added more than \$485,500 to the capital asset balance,
- Amounts necessary to complete the repairs to the Otsego Dam were \$81,000 less than projected.

Business-type activities increased the City's net assets by \$83,960, accounting for the remaining 21.8 percent of the total growth in the City's net assets. Key factors of this increase are as follows:

- Conservative budgeting due to a promise to not increase utility rates until the 2005-2006 fiscal year,
- Revenue levels exceeding expenses which resulted in additions to fund net assets.

Financial Analysis of the City's Funds

The last section of the financial report, entitled "Supplementary Information," includes balance sheets and statements of revenues, expenditures and changes in fund balance in more detail for each of the City's funds. The latter statement also includes the amended budgets as adopted and approved for each fund. These reports will likely be more familiar to City Commissioners and staff as they are more closely formatted in a manner similar to the monthly financials reports.

General Fund

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance was \$573,392, including \$40,000 designated for the purchase of a fire truck, and reserved fund balance was \$3,189. Total fund balance increased by \$110,541 during the fiscal year primarily due cost sharing by two of the Principal Responsible Parties involved with the Kalamazoo River Superfund Site with the City to repair the Otsego Dam. In addition, some budgeted purchases were postponed in anticipation of unforeseen expenditures involved with the repair to the Otsego Dam and further reductions in state shared revenues.

The differences between the original budget and the final amended budget for revenue and expenditures were relatively minor (\$154,835 or 7.6 percent increase and \$85,665 or 3.7 percent decrease, respectively). However, the difference between the final amended and the actual expenditure amounts was most significant. Expenditures were \$165,616 less than budgeted. The difference between the actual and budgeted can be attributed to the lower actual cost of improvements to the dam and a reduction in capital improvements to City parks. Consequently the General Fund continues to maintain a healthy unrestricted fund balance of 25.6 percent of expenditures, which will help the City maintain its current level of services during the current economic downturn.

Major Street Fund

The City receives revenues from the State of Michigan to maintain 8.44 miles of major streets as defined by Public Act 51 of 1951. Also, included in this fund are operating costs to maintain the M-89 State Highway, according to contract. Capital improvement expenditures, including the resurfacing of Dix and Washington Streets and the installation of new storm sewer on West River Street, were the primary reason that the fund balance decreased by \$319,393, however, this was anticipated to accomplish the \$455,000 in capital improvements.

Local Street Fund

The City receives revenues from the State of Michigan to maintain 11.97 miles of local streets as defined by Public Act 51 of 1951. Subsidies are regularly transferred from the Major Street Fund and/or the Street and Bridge Fund to accumulate sufficient resources to cover anticipated future street maintenance costs. Revenues and other sources, including a \$30,000 transfer from the Street & Bridge Fund, exceeded expenditures by \$40,834, increasing fund balance.

Street & Bridge Fund

The Street and Bridge Fund is a special revenue fund where the City receives the road portion of the taxes collected by Allegan County. Because the county does not maintain any roads within the City, the City may use these monies for capital improvement projects or road maintenance. Revenues exceeded the transfer to the Local Street Fund, so that fund balance increased by \$88,064, 21.7 percent, to \$493,869.

Special Assessment Capital Project Fund

The fund did not provide any resources to capital improvement projects, and realized a 14.1 percent increase in fund balance from the collection of outstanding special assessment and investment interest.

Sewer Fund

Total revenues were \$67,578, or 9.5 percent less than original projections. The operating activities of the Sewer Fund included a legal settlement regarding the Sunrise Landfill, and the cleaning and televising of the Dix Street sewer main during the street resurfacing project. Even with less than expected revenues and increased expenses, Total Net Assets increased \$70,076 or 1.9 percent over the fiscal year. Total Net Assets are \$3,846,837 at year end.

Water Fund

User fees revenues to this enterprise fund were also less than projected, but by only 4.2 percent, and total revenues were \$20,278 less than projected, or 5 percent. Total operating expenses also exceeded projections by \$39,346, or 12.2 percent. As in the Sewer Fund, however, even with less than expected revenues and increased expenses, Total Net Assets increased \$11,016, or .6 percent over the fiscal year. Total Net Assets are \$1,973,966 at year end.

Land Development Fund

This fund is also a proprietary fund and has been involved with the development of seven residential plats. Lot prices in each of the plats have been calculated to offset construction and land acquisition costs. The value of the lots held as inventory at year end totaled \$861,099. Lot sales of \$236,336 during the fiscal year exceeded the related development costs of \$161,625, yielding a profit on sales of \$74,711. Taking other expenses into consideration, net assets increased by \$5,349 to \$528,142.

DPW Equipment Fund

Projected revenues by and expenses provided for the trade-in and replacement of skid-steer loader that developed engine problems. A new backhoe was also purchased during the fiscal year. Operating revenues and expenses were both less than projected, 9.4 and 1.3 percent, respectively. Both can be attributed to a reduction in use of equipment due to a light winter and less work in the City park for capital improvements. The fund did see its net assets increase by 2.3 percent to \$415,337.

Capital Assets and Debt Administration

Capital Assets:

The City investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$8,832,931 (net of accumulated depreciation). This investment includes a broad range of assets. The total increase in the City's net investment in capital assets for the current fiscal year was \$494,616.

This year's major capital events included the following:

- The Dix and Washington Streets resurfacing project including water main improvements.
- Rebuild of the North Street Sewer Lift Station
- 1 police car
- 1 backhoe
- 1 skid-steer loader

Sewer Fund:

Capital improvements were 88.2 percent less than the \$350,000 originally projected. The improvements scheduled for the wastewater plant to add aqua-disk tertiary treatment and ultraviolet disinfection were postponed in order to address \$41,415 in upgrades necessary to the North Street Lift Station.

City of Otsego
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Water Fund:

Capital improvements in this fund included improvements to the Dix Street Water Main and a small amount of remaining work necessary to finish the second transmission main to the water tower.

Component Unit - Otsego Downtown Development Authority

DDA expenditures included a purchase of land for \$20,469, and \$847,173 in construction costs for the Phase 13 construction project renovating a turn of the century "Waterworks" building for use as a museum and attraction to the downtown. Ownership of the building will be transferred to the City upon completion of the project.

Additional information regarding the City's capital assets can be located in the Note 5 of the notes to basic financial statements.

Long-Term Debt:

At the end of the fiscal year, the City had total long-term bonds and notes outstanding of \$1,012,100. Of this amount, \$277,434 comprises debt backed by the full faith and credit of the City. There is no debt backed by the limited full faith and credit of the City. Another \$750,000 represents bonds secured solely by specific revenue sources (i.e., revenue bonds).

The last rating the City received from Standard & Poor's for limited tax general obligation debt was a "BBB-" in 2002.

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property. The City's total general obligation debt (\$277,434) is significantly lower than the current state-imposed limit of \$12,152,933.

Other long-term debt obligations totaling \$92,933 represent accrued compensated absences. Additional information is presented in Note 6 to the basic financial statements.

Economic Condition and Outlook

The City's budget for the next year projects another decrease in State Share Revenues. Property tax revenues have experienced growth above the CPI due to expansions in local industry, new home construction and improvements to existing properties. On July 7, 2004, just after the end of the fiscal year, the Rock-Tenn Corporation notified the City it had closed its local paper mill permanently. This facility was the City's third largest taxpayer for the 2003 tax year, representing 5.6 percent of the tax base.

Because the City's component unit, the DDA, will have completed the majority of its projects, it is budgeting a 40 percent reduction in revenues from tax increment financing. This reduction will result in additional tax revenues to the General Fund of approximately \$100,000. It is doubtful that these additional revenues will offset the continuing reductions in state revenue sharing and the loss of a major industry. To offset the anticipated shortfall, additional cost saving measures will continue to be considered such as capital purchase freezes, program reductions and staff reductions.

The City's utilities continue to increase their net assets, even during periods where decreases have been expected. This demonstrates the very conservative and careful attention of management to maintenance and cost containment. Resources to continue infrastructure improvement and expansion are being used at a faster rate than excess revenues can replenish, however. This fact, along with lowered consumer use than projected may necessitate a significant increase in user fees in the 2005-2006 fiscal year. This marks the end of the three-year period where the current utility rate structure was introduced with a pledge by the City to maintain stable rates during the evaluation period.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors and creditors, and to demonstrate the City's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

Matthew Storbeck, Finance Director
City of Otsego
117 East Orleans Street
Otsego, MI 49078-1199

Phone: (269) 692-2741
E-Mail: finance.dir@ci.otsego.mi.us

BASIC FINANCIAL STATEMENTS

City of Otsego
STATEMENT OF NET ASSETS
June 30, 2004

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	
ASSETS				
Current assets				
Cash	\$ 1,639,272	\$ 1,496,510	\$ 3,135,782	\$ 312,781
Receivables (net)	262,965	252,206	515,171	-
Interfund balances	294,207	(294,207)	-	-
Due from component unit	445	-	445	-
Inventory	7,697	886,237	893,934	-
Prepaid costs	40,879	9,401	50,280	636
Total current assets	2,245,465	2,350,147	4,595,612	313,417
Noncurrent assets				
Restricted cash	-	350,091	350,091	43,323
Capital assets (net of accumulated depreciation)	4,041,495	4,791,436	8,832,931	1,158,833
Total non-current assets	4,041,495	5,141,527	9,183,022	1,202,156
Total assets	6,286,960	7,491,674	13,778,634	1,515,573
LIABILITIES				
Current liabilities				
Accounts payable	146,852	14,214	161,066	133,991
Accrued liabilities	21,838	35,671	57,509	376
Due to primary government	-	-	-	445
Customer deposits	12,210	83,225	95,435	-
Current portion of long-term obligations	15,334	169,471	184,805	-
Total current liabilities	196,234	302,581	498,815	134,812
Noncurrent liabilities				
Long-term obligations	92,933	842,629	935,562	-
Total liabilities	289,167	1,145,210	1,434,377	134,812
NET ASSETS				
Invested in capital assets, net of related debt	4,026,161	4,041,436	8,067,597	1,158,833
Restricted for:				
Bond retirement	-	156,866	156,866	-
Public works	842,877	-	842,877	-
Public safety	3,189	-	3,189	-
Unrestricted	1,125,566	2,148,162	3,273,728	221,928
Total net assets	\$ 5,997,793	\$ 6,346,464	\$ 12,344,257	\$ 1,380,761

See notes to the financial statements

City of Otsego
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Functions/Programs	Program revenues			
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government				
<i>Governmental activities:</i>				
Legislative	\$ 7,441	\$ -	\$ -	\$ -
General government	520,212	30,960	-	-
Public safety	1,004,981	135,341	1,769	460
Public works	610,719	38,312	336,218	151,331
Community and economic development	1,037	180	-	-
Parks and recreation	105,657	-	-	-
<i>Total governmental activities</i>	<u>2,250,047</u>	<u>204,793</u>	<u>337,987</u>	<u>151,791</u>
<i>Business-type activities</i>				
Land development	231,222	236,336	-	-
Sewer	528,297	586,890	-	-
Water	374,162	380,691	-	-
<i>Total business-type activities</i>	<u>1,133,681</u>	<u>1,203,917</u>	<u>-</u>	<u>-</u>
<i>Total primary government</i>	<u>\$ 3,383,728</u>	<u>\$ 1,408,710</u>	<u>\$ 337,987</u>	<u>\$ 151,791</u>
Component unit - DDA	<u>\$ 61,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues

Taxes
Public service tax
State grants
Investment income
Other
Special Items:
 Gain on sale of fixed assets

Total general revenues

Change in net assets

Net assets - beginning of year

Net assets - end of year

**Net (expense) revenue and
changes in net assets**

Primary government

<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Component unit</i>
\$ (7,441)	\$ -	\$ (7,441)	\$ -
(489,252)	-	(489,252)	-
(867,411)	-	(867,411)	-
(84,858)	-	(84,858)	-
(857)	-	(857)	-
(105,657)	-	(105,657)	-
(1,555,476)	-	(1,555,476)	-
-	5,114	5,114	-
-	58,593	58,593	-
-	6,529	6,529	-
-	70,236	70,236	-
(1,555,476)	70,236	(1,485,240)	-
-	-	-	(61,144)
1,237,447	-	1,237,447	358,981
109,972	-	109,972	-
406,285	-	406,285	-
22,372	13,724	36,096	4,873
71,231	-	71,231	840
9,000	-	9,000	-
1,856,307	13,724	1,870,031	364,694
300,831	83,960	384,791	303,550
5,696,962	6,262,504	11,959,466	1,077,211
\$ 5,997,793	\$ 6,346,464	\$ 12,344,257	\$ 1,380,761

See notes to the financial statements

City of Otsego
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Special Assessment Capital Project</u>	<u>Other governmental funds</u>	<u>Totals</u>
ASSETS					
Cash	\$ 655,424	\$ 145,598	\$ 219,152	\$ 497,431	\$ 1,517,605
Receivables	29,611	-	131,896	95	161,602
Prepaid expenses	31,174	824	-	823	32,821
Due from other funds	133,207	185	-	160,303	293,695
Due from component unit	131	-	-	-	131
Due from other governmental units	<u>52,440</u>	<u>36,575</u>	<u>-</u>	<u>12,348</u>	<u>101,363</u>
<i>Total assets</i>	<u>901,987</u>	<u>183,182</u>	<u>351,048</u>	<u>671,000</u>	<u>2,107,217</u>
LIABILITIES					
Accounts payable	121,885	3,503	-	3,193	128,581
Accrued liabilities	38,453	924	-	770	40,147
Due to other funds	9,671	1,172	-	1,743	12,586
Due to other governmental units	15,378	-	-	-	15,378
Due to component unit	118	-	-	-	118
Customer deposits	12,210	-	-	-	12,210
Deferred revenue	<u>127,691</u>	<u>-</u>	<u>131,495</u>	<u>-</u>	<u>259,186</u>
<i>Total liabilities</i>	<u>325,406</u>	<u>5,599</u>	<u>131,495</u>	<u>5,706</u>	<u>468,206</u>
FUND BALANCES					
Reserved	3,189	-	-	-	3,189
Unreserved:					
Designated for capital outlay	40,000	-	-	-	40,000
Undesignated	<u>533,392</u>	<u>177,583</u>	<u>219,553</u>	<u>665,294</u>	<u>1,595,822</u>
<i>Total fund balances</i>	<u>576,581</u>	<u>177,583</u>	<u>219,553</u>	<u>665,294</u>	<u>1,639,011</u>
<i>Amounts reported for governmental activities in the statement of net assets are different because.</i>					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					3,768,819
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.					259,186
Internal service funds are used by management to charge costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.					417,961
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.					<u>(87,184)</u>
Net assets of governmental funds					<u>\$ 5,997,793</u>

See notes to the financial statements

City of Otsego
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - Governmental Funds
Year ended June 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Special Assessment Capital Project</u>	<u>Other governmental funds</u>	<u>Totals</u>
REVENUES					
Taxes	\$ 1,237,447	\$ -	\$ -	\$ -	\$ 1,237,447
Federal grants	460	-	-	-	460
State grants	408,054	216,197	-	79,782	704,033
Fines and forfeitures	17,326	-	-	-	17,326
Licenses and permits	82,815	-	-	-	82,815
Intergovernmental	72,170	15,520	-	109,972	197,662
Charges for services	40,671	-	-	-	40,671
Interest and rentals	10,552	1,403	5,307	8,975	26,237
Other	328,660	-	21,804	773	351,237
<i>Total revenues</i>	<u>2,198,155</u>	<u>233,120</u>	<u>27,111</u>	<u>199,502</u>	<u>2,657,888</u>
EXPENDITURES					
Legislative	7,275	-	-	-	7,275
General government	485,941	-	-	-	485,941
Public safety	843,203	-	-	-	843,203
Public works	384,558	552,513	-	70,604	1,007,675
Community and economic development	4	-	-	-	4
Recreation - parks department	92,664	-	-	-	92,664
Debt service:					
Principal	15,333	-	-	-	15,333
Capital outlay	258,636	-	-	-	258,636
<i>Total expenditures</i>	<u>2,087,614</u>	<u>552,513</u>	<u>-</u>	<u>70,604</u>	<u>2,710,731</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>110,541</u>	<u>(319,393)</u>	<u>27,111</u>	<u>128,898</u>	<u>(52,843)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	30,000	30,000
Transfers out	-	-	-	(30,000)	(30,000)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	<u>110,541</u>	<u>(319,393)</u>	<u>27,111</u>	<u>128,898</u>	<u>(52,843)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>466,040</u>	<u>496,976</u>	<u>192,442</u>	<u>536,396</u>	<u>1,691,854</u>
FUND BALANCES - END OF YEAR	<u>\$ 576,581</u>	<u>\$ 177,583</u>	<u>\$ 219,553</u>	<u>\$ 665,294</u>	<u>\$ 1,639,011</u>
Net change in fund balances - total governmental funds					\$ (52,843)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	525,736
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	(127,691)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(71,850)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	15,333
The net revenue of certain activities of the internal service fund is reported with governmental activities.	12,146
Change in net assets of governmental activities	<u>\$ 300,831</u>

City of Otsego
STATEMENT OF NET ASSETS - Proprietary Funds
June 30, 2004

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
			<i>Land</i>		<i>DPW</i>
	<i>Sewer</i>	<i>Water</i>	<i>Development</i>	<i>Totals</i>	<i>Equipment</i>
ASSETS					
Current assets					
Cash	\$ 1,115,881	\$ 290,270	\$ 90,359	\$ 1,496,510	\$ 121,667
Receivables:					
Accounts	163,842	87,791	173	251,806	-
Interest	287	113	-	400	-
Due from other funds	1,188	1,084	-	2,272	11,553
Due from component unit	-	-	-	-	289
Inventory	366	24,772	861,099	886,237	7,697
Prepaid expenses	6,390	3,011	-	9,401	8,059
<i>Total current assets</i>	<u>1,287,954</u>	<u>407,041</u>	<u>951,631</u>	<u>2,646,626</u>	<u>149,265</u>
Noncurrent assets					
Restricted cash	201,007	65,859	83,225	350,091	-
Capital assets (net):					
Sewer system	3,079,181	-	-	3,079,181	-
Water system	-	1,712,255	-	1,712,255	-
Buildings and equipment	-	-	-	-	272,676
<i>Total capital assets</i>	<u>3,079,181</u>	<u>1,712,255</u>	<u>-</u>	<u>4,791,436</u>	<u>272,676</u>
<i>Total noncurrent assets</i>	<u>3,280,188</u>	<u>1,778,114</u>	<u>83,225</u>	<u>5,141,527</u>	<u>272,676</u>
<i>Total assets</i>	<u>4,568,142</u>	<u>2,185,155</u>	<u>1,034,856</u>	<u>7,788,153</u>	<u>421,941</u>
LIABILITIES					
Current liabilities					
Accounts payable	8,514	4,312	1,388	14,214	2,893
Accrued expenses	21,997	13,674	-	35,671	2,774
Due to other funds	130,794	3,203	160,000	293,997	937
Customer deposits	-	-	83,225	83,225	-
Land contract - current	-	-	59,471	59,471	-
Bonds payable - current	95,000	15,000	-	110,000	-
<i>Total current liabilities</i>	<u>256,305</u>	<u>36,189</u>	<u>304,084</u>	<u>596,578</u>	<u>6,604</u>
Noncurrent liabilities					
Revenue bonds payable	465,000	175,000	-	640,000	-
Land contract payable	-	-	202,629	202,629	-
<i>Total noncurrent liabilities</i>	<u>465,000</u>	<u>175,000</u>	<u>202,629</u>	<u>842,629</u>	<u>-</u>
<i>Total liabilities</i>	<u>721,305</u>	<u>211,189</u>	<u>506,713</u>	<u>1,439,207</u>	<u>6,604</u>
NET ASSETS					
Investment in capital assets, net of related debt	2,519,181	1,522,255	-	4,041,436	-
Restricted bond retirement	106,007	50,859	-	156,866	-
Unrestricted, unallocated	1,221,649	400,852	528,143	2,150,644	415,337
<i>Total net assets</i>	<u>\$ 3,846,837</u>	<u>\$ 1,973,966</u>	<u>\$ 528,143</u>	<u>6,348,946</u>	<u>\$ 415,337</u>
<i>Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.</i>				<u>(2,482)</u>	
Net assets of business-type activities				<u>\$ 6,346,464</u>	

See notes to the financial statements

City of Otsego
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - Proprietary Funds
Year ended June 30, 2004

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Land Development</i>	<i>Totals</i>	<i>DPW Equipment</i>
Operating revenues					
Charges for services	\$ 574,615	\$ 368,242	\$ 236,336	\$ 1,179,193	\$ 144,911
Other	12,275	12,449	-	24,724	-
<i>Total operating revenues</i>	<u>586,890</u>	<u>380,691</u>	<u>236,336</u>	<u>1,203,917</u>	<u>144,911</u>
Operating expenses					
Mains	65,993	153,301	-	219,294	-
Wastewater treatment plant	254,378	-	-	254,378	-
Water pumping	-	108,765	-	108,765	-
Administration	65,663	46,118	-	111,781	-
Other	-	-	203,109	203,109	85,032
Depreciation	102,627	54,347	-	156,974	60,043
<i>Total operating expenses</i>	<u>488,661</u>	<u>362,531</u>	<u>203,109</u>	<u>1,054,301</u>	<u>145,075</u>
Operating income (loss)	98,229	18,160	33,227	149,616	(164)
Nonoperating revenues (expenses)					
Interest	10,757	2,731	236	13,724	686
Sale of fixed assets	-	-	-	-	9,000
Interest expense	(38,910)	(9,875)	(28,113)	(76,898)	-
<i>Total nonoperating revenues (expenses)</i>	<u>(28,153)</u>	<u>(7,144)</u>	<u>(27,877)</u>	<u>(63,174)</u>	<u>9,686</u>
<i>Change in net assets</i>	70,076	11,016	5,350	86,442	9,522
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>3,776,761</u>	<u>1,962,950</u>	<u>522,793</u>	<u>6,262,504</u>	<u>405,815</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 3,846,837</u>	<u>\$ 1,973,966</u>	<u>\$ 528,143</u>	<u>\$ 6,348,946</u>	<u>\$ 415,337</u>
Net change in net assets - total business-type activities				\$ 86,442	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(2,482)	
Change in net assets of business-type activities				<u>\$ 83,960</u>	

See notes to the financial statements

City of Otsego
STATEMENT OF CASH FLOWS - Proprietary Funds
For the Year ended June 30, 2004

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Land Development</i>	<i>Totals</i>	<i>DPW Equipment</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 591,291	\$ 387,470	\$ 247,595	\$ 1,226,356	\$ 143,464
Payments to suppliers	(207,498)	(196,535)	(40,470)	(444,503)	(59,633)
Payments to employees	(159,612)	(144,597)	-	(304,209)	(27,367)
Net cash provided by operating activities	<u>224,181</u>	<u>46,338</u>	<u>207,125</u>	<u>477,644</u>	<u>56,464</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Decrease in due from other funds	88,812	-	-	88,812	-
Decrease in due to other funds	(131,395)	(3,761)	(230,000)	(365,156)	(83)
Interfund loan interest	-	-	(7,447)	(7,447)	-
Principal payments on long-term debt	-	-	(55,842)	(55,842)	-
Interest payments on long-term debt	-	-	(20,666)	(20,666)	-
Net cash provided by (used in) noncapital financing activities	<u>(42,583)</u>	<u>(3,761)</u>	<u>(313,955)</u>	<u>(360,299)</u>	<u>(83)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of fixed assets	-	-	-	-	9,000
Acquisition of capital assets	(41,415)	(91,217)	-	(132,632)	(73,719)
Principal payments on long-term debt	(90,000)	(15,000)	-	(105,000)	-
Interest payments on long-term debt	(38,910)	(9,875)	-	(48,785)	-
Net cash used in capital and related financing activities	<u>(170,325)</u>	<u>(116,092)</u>	<u>-</u>	<u>(286,417)</u>	<u>(64,719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>11,057</u>	<u>3,605</u>	<u>236</u>	<u>14,898</u>	<u>686</u>
NET INCREASE (DECREASE) IN CASH	<u>22,330</u>	<u>(69,910)</u>	<u>(106,594)</u>	<u>(154,174)</u>	<u>(7,652)</u>
BALANCES - BEGINNING OF THE YEAR	<u>1,294,558</u>	<u>426,039</u>	<u>280,178</u>	<u>2,000,775</u>	<u>129,319</u>
BALANCES - END OF YEAR	<u>\$ 1,316,888</u>	<u>\$ 356,129</u>	<u>\$ 173,584</u>	<u>\$ 1,846,601</u>	<u>\$ 121,667</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income (loss)	\$ 98,229	\$ 18,160	\$ 33,227	\$ 149,616	\$ (164)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	102,627	54,347	-	156,974	60,043
(Increase) decrease in:					
Receivables, net	4,401	7,863	13,246	25,510	-
Due from other funds	-	(1,084)	-	(1,084)	(1,157)
Due from component unit	-	-	-	-	(289)
Inventory	-	1,503	159,159	160,662	(2,023)
Prepaid expenses	3,530	847	-	4,377	(1,701)
Increase (decrease) in:					
Accounts payable	(828)	(28,499)	1,014	(28,313)	119
Accrued liabilities	16,222	(6,799)	-	9,423	1,636
Customer deposits	-	-	479	479	-
Net cash provided by operating activities	<u>\$ 224,181</u>	<u>\$ 46,338</u>	<u>\$ 207,125</u>	<u>\$ 477,644</u>	<u>\$ 56,464</u>

See notes to the financial statements

City of Otsego
STATEMENT OF NET ASSETS - FIDUCIARY FUND
June 30, 2004

	<u>Agency Fund Type</u>
ASSETS	
Cash	\$ 1,497
Receivables - taxes	<u>2,706</u>
<i>Total assets</i>	<u><u>\$ 4,203</u></u>
LIABILITIES	
Due to other governmental units	\$ 2,706
Customer deposits	<u>1,497</u>
<i>Total liabilities</i>	<u><u>\$ 4,203</u></u>

See notes to the financial statements

City of Otsego
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Otsego, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The City is governed by an elected five-member Commission. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. The component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally from the government.

Discretely-presented component unit - Downtown Development Authority:

This unit is presented in a separate column in the combined financial statements to emphasize that it is legally separate from the City. Separate financial statements of the component unit have not been issued, as management believes these general purpose financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit. The component unit's governing body is appointed by the City Commission and its budget must be approved by the City Commission.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Special Assessment Capital Project Fund accounts for the construction or purchase of capital assets.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the City's sewerage system and treatment plant.

The Water Fund accounts for the operation of the City's water mains and pumping facilities.

The Land Development Fund accounts for the development and sale of residential and commercial real estate for purposes of promoting economic development within the City.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Additionally, the government reports the following fund types:

The internal service fund accounts for the DPW equipment assets and rentals by various City departments.

The agency fund accounts for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*):

d) Assets, liabilities, and net assets or equity (continued):

ii) Receivables and payables (continued) - All trade and property tax receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and Water systems	50 years

v) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS:

The City's deposits, as shown in the government-wide statement of net assets are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Total Primary government</u>	<u>Component unit</u>
Cash	\$1,639,272	\$1,496,510	\$1,497	\$3,137,279	\$312,781
Restricted assets	<u>-</u>	<u>350,091</u>	<u>-</u>	<u>350,091</u>	<u>43,323</u>
Total cash	<u>\$1,639,272</u>	<u>\$1,846,601</u>	<u>\$1,497</u>	<u>\$3,487,370</u>	<u>\$356,104</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the City. Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The City's deposits are in accordance with statutory authority. At June 30, 2004, the City has deposits with a carrying amount of \$3,487,370 and a bank balance of \$3,625,160. Of the bank balance \$573,239 is covered by federal depository insurance, and \$3,051,921 is uninsured. The component unit has deposits with a carrying amount of \$356,104 and a bank balance of \$356,096. Of the bank balance \$43,827 is covered by federal depository insurance, and \$312,269 is uninsured.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows:

	<u>General</u>	<u>Major Street</u>	<u>Special Assessment Capital Project</u>	<u>Non-major</u>	<u>Totals</u>
Taxes receivable	\$ 1,012	\$ -	\$ -	\$ -	\$ 1,012
Accounts	28,599	-	401	95	29,095
Special assessments	-	-	131,495	-	131,495
Intergovernmental	<u>52,440</u>	<u>36,575</u>	<u>-</u>	<u>12,348</u>	<u>101,363</u>
Net receivables	<u>\$82,051</u>	<u>\$36,575</u>	<u>\$131,896</u>	<u>\$12,443</u>	<u>\$262,965</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$112,094</u>	<u>\$ -</u>	<u>\$112,094</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the City for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
<i>Governmental activities:</i>				
Capital assets not being depreciated - land	\$ <u>801,280</u>	\$ <u>-</u>	\$ <u>20,465</u>	\$ <u>780,815</u>
Capital assets being depreciated:				
Buildings	2,151,738	-	-	2,151,738
Improvements	176,057	674,604	-	850,661
Furniture, fixtures and equipment	650,675	90,394	8,235	732,834
Vehicles	<u>1,132,866</u>	<u>20,490</u>	<u>3,501</u>	<u>1,149,855</u>
Subtotal	<u>4,111,336</u>	<u>785,488</u>	<u>11,736</u>	<u>4,885,088</u>
Less accumulated depreciation for:				
Buildings	394,389	45,611	-	440,000
Improvements	21,394	33,172	-	54,566
Furniture, fixtures and equipment	413,566	66,330	8,235	471,661
Vehicles	<u>560,729</u>	<u>100,953</u>	<u>3,501</u>	<u>658,181</u>
Subtotal	<u>1,390,078</u>	<u>246,066</u>	<u>11,736</u>	<u>1,624,408</u>
Net capital assets being depreciated	<u>2,721,258</u>	<u>539,422</u>	<u>-</u>	<u>3,260,680</u>
<i>Governmental activities:</i>				
Total capital assets - net of depreciation	<u>\$3,522,538</u>	<u>\$539,422</u>	<u>\$20,465</u>	<u>\$4,041,495</u>
<i>Business-type activities:</i>				
Capital assets not being depreciated - land	\$ <u>23,052</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,052</u>
Capital assets being depreciated:				
Sewer system	4,710,912	41,415	-	4,752,327
Water system	<u>2,329,349</u>	<u>91,218</u>	<u>-</u>	<u>2,420,567</u>
Subtotal	<u>7,040,261</u>	<u>132,633</u>	<u>-</u>	<u>7,172,894</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Less accumulated depreciation for:				
Sewer system	\$1,593,571	\$102,627	\$ -	\$1,696,198
Water system	<u>653,965</u>	<u>54,347</u>	<u>-</u>	<u>708,312</u>
Subtotal	<u>2,247,536</u>	<u>156,974</u>	<u>-</u>	<u>2,404,510</u>
Net capital assets being depreciated	<u>4,792,725</u>	<u>(24,341)</u>	<u>-</u>	<u>4,768,384</u>
<i>Business-type activities:</i>				
Total capital assets - net of depreciation	<u>\$4,815,777</u>	<u>\$ (24,341)</u>	<u>\$ -</u>	<u>\$4,791,436</u>
<i>Component unit:</i>				
Capital assets not being depreciated:				
Land	\$ 77,600	\$ 20,469	\$ -	\$ 98,069
Construction in progress	<u>213,591</u>	<u>847,173</u>	<u>-</u>	<u>1,060,764</u>
Total component unit	<u>\$ 291,191</u>	<u>\$867,642</u>	<u>\$ -</u>	<u>\$1,158,833</u>

Depreciation expense was charged to programs of the City as follows:

<i>Governmental activities:</i>	
General government	\$ 33,934
Public safety	112,260
Public works	89,776
Recreation and culture	<u>10,096</u>
Total governmental activities	<u>\$246,066</u>
<i>Business-type activities:</i>	
Public works	<u>\$156,974</u>

NOTE 6 - LONG-TERM LIABILITIES:

Long-term liabilities at June 30, 2004, are comprised of the following individual issues:

<i>Governmental activities:</i>	
\$30,667 installment purchase agreement - land contract payable in annual installments of \$15,334; final payment due September 2004.	<u>\$ 15,334</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued):

Business-type activities:

\$550,000 installment purchase agreement - land contract payable in annual installments of \$59,471 to \$71,838, plus interest at 6.50%; final payment due July 2007. \$ 262,100

\$400,000 1975 Water Supply System Revenue Bonds - payable in annual installments of \$15,000 to \$20,000, plus interest at 5.00%; final payment due January 2015. 190,000

\$945,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$65,000 to \$85,000, plus interest at 7.20%; final payment due November 2008. 375,000

\$455,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$30,000 to \$45,000, plus interest at 7.05% to 7.15%; final payment due November 2008. 185,000

Total business-type activities long-term liabilities \$1,012,100

a) Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<i>Governmental activities:</i>					
Brewster land contract	\$ 30,669	\$ -	\$ (15,335)	\$ 15,334	\$ 15,334
Compensated absences	<u>93,248</u>	<u>67,956</u>	<u>(68,271)</u>	<u>92,933</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 123,917</u>	<u>\$67,956</u>	<u>\$ (83,606)</u>	<u>\$ 108,267</u>	<u>\$ 15,334</u>
<i>Business-type activities:</i>					
1975 revenue bonds	\$ 205,000	\$ -	\$ (15,000)	\$ 190,000	\$ 15,000
1989 revenue bonds	435,000	-	(60,000)	375,000	65,000
1989 revenue bonds	215,000	-	(30,000)	185,000	30,000
Eley IV land contract	317,941	-	(55,841)	262,100	59,471
Compensated absences	<u>32,607</u>	<u>23,763</u>	<u>(23,873)</u>	<u>32,497</u>	<u>-</u>
Business-type activities long-term activities	<u>\$1,205,548</u>	<u>\$23,763</u>	<u>\$ (184,714)</u>	<u>\$1,044,597</u>	<u>\$169,471</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued):

b)Debt service requirements at June 30, 2004 were as follows:

	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ended June 30:				
2005	\$15,334	\$ -	\$ 169,471	\$ 58,958
2006	-	-	183,337	44,106
2007	-	-	206,838	33,388
2008	-	-	145,000	22,027
2009	-	-	115,000	59,471
2010 - 2015	-	-	115,000	16,625
Totals	<u>\$15,334</u>	<u>\$ -</u>	<u>\$1,012,100</u>	<u>\$179,853</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
General	<u>\$133,207</u>	Sewer	\$129,798
		Water	2,073
		DPW Equipment	937
		Other governmental funds	<u>399</u>
			<u>133,207</u>
Major street	<u>185</u>	General	<u>185</u>
Sewer	<u>1,188</u>	General	<u>1,188</u>
Water	<u>1,084</u>	General	965
		Sewer	<u>119</u>
			<u>1,084</u>
DPW Equipment	<u>11,553</u>	General	7,030
		Major street	1,172
		Sewer	877
		Water	1,130
		Other governmental funds	<u>1,344</u>
			<u>11,553</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued):

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
Other governmental funds	<u>\$160,303</u>	General	\$ 303
		Other governmental funds	<u>160,000</u>
			<u>160,303</u>
Total	<u>\$307,520</u>	Total	<u>\$307,520</u>

A summary of interfund transfers for the year ended June 30, 2004, is as follows:

	<u>Transfer in</u>	<u>Transfer out</u>
Other governmental funds	<u>\$30,000</u>	<u>\$30,000</u>

In 2004, a transfer was used to move available unrestricted funds from one non-major governmental fund to another to finance local street costs.

NOTE 8 - ECONOMIC DEPENDENCY:

The City received approximately 23% of its property tax revenue from one industrial facility and 19.6% of its sewer and water utility revenue from the same facility.

NOTE 9 - RISK MANAGEMENT:

The City is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 10 - RETIREMENT PLAN:

The City maintains a defined contribution pension plan, which includes all of its full-time employees. The City contributes 10% of covered payroll to this plan on behalf of qualifying employees. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service.

The City made the required contributions of \$120,620 for the year ended June 30, 2004. The City is not a trustee of these plans, nor is the City responsible for investment management of plan assets.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - CONTINGENT LIABILITIES:

a) The City is contingently liable to its employees for approximately \$183,000 in accumulated non-vested sick pay benefits.

b) The State of Michigan has conducted audits of the City's reports of Industrial Facilities Tax collected and captured for the years 1995-2003. Based on its audits, the State has found that the City has underpaid the State approximately \$130,000, and that approximately \$250,000 in taxes were captured in error.

The City does not agree with the State's findings, and contends that documentation is available to justify the City's reports and submittals.

c) The City has been assigned a land contract between other parties, for which the City is contingently liable only upon default of the buyer. The balance of the land contract at June 30, 2004 is \$86,985.

NOTE 12 - COMMITMENT:

At June 30, 2004, the Component Unit had the following renovation and reconstruction commitment:

	<i><u>Project authorization</u></i>	<i><u>Expended through June 30, 2004</u></i>	<i><u>Committed</u></i>
Otsego Area Historical Society Museum renovation and reconstruction project	\$1,288,009	\$1,138,364	\$149,645

This project is to be funded by the available resources of the Downtown Development Authority.

REQUIRED SUPPLEMENTARY INFORMATION

City of Otsego
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 1,233,525	\$ 1,233,525	\$ 1,237,447	\$ 3,922
Federal grants	-	-	460	460
State grants	435,700	435,700	408,054	(27,646)
Fines and forfeitures	15,000	15,000	17,326	2,326
Licenses and permits	56,750	56,750	82,815	26,065
Intergovernmental	108,000	82,000	72,170	(9,830)
Charges for services	47,200	38,000	40,671	2,671
Interest and rentals	17,255	17,255	10,552	(6,703)
Other	128,790	318,825	328,660	9,835
<i>Total revenues</i>	<u>2,042,220</u>	<u>2,197,055</u>	<u>2,198,155</u>	<u>1,100</u>
EXPENDITURES				
Legislative	9,700	9,700	7,275	2,425
General government	498,835	510,935	485,941	24,994
Public safety	895,510	875,110	843,203	31,907
Public works	405,220	387,365	384,558	2,807
Community and economic development	500	1,300	4	1,296
Recreation and culture	113,345	113,700	92,664	21,036
Debt service:				
Principal	15,335	15,335	15,333	2
Capital outlay	400,450	339,785	258,636	81,149
<i>Total expenditures</i>	<u>2,338,895</u>	<u>2,253,230</u>	<u>2,087,614</u>	<u>165,616</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(296,675)	(56,175)	110,541	166,716
FUND BALANCE - BEGINNING OF YEAR	<u>466,040</u>	<u>466,040</u>	<u>466,040</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 169,365</u>	<u>\$ 409,865</u>	<u>\$ 576,581</u>	<u>\$ 166,716</u>

City of Otsego
BUDGETARY COMPARISON SCHEDULE - Major Street Fund
Year ended June 30, 2004

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES				
State grants	\$ 186,000	\$ 186,000	\$ 216,197	\$ 30,197
Intergovernmental	20,000	20,000	15,520	(4,480)
Interest and rentals	<u>5,000</u>	<u>5,000</u>	<u>1,403</u>	<u>(3,597)</u>
<i>Total revenues</i>	<u>211,000</u>	<u>211,000</u>	<u>233,120</u>	<u>22,120</u>
EXPENDITURES				
Public works	<u>441,420</u>	<u>573,920</u>	<u>552,513</u>	<u>21,407</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(230,420)	(362,920)	(319,393)	43,527
FUND BALANCE - BEGINNING OF YEAR	<u>496,976</u>	<u>496,976</u>	<u>496,976</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 266,556</u>	<u>\$ 134,056</u>	<u>\$ 177,583</u>	<u>\$ 43,527</u>

SUPPLEMENTARY INFORMATION

City of Otsego
COMBINING BALANCE SHEET - Non-Major Governmental Funds
June 30, 2004

	<i>Special revenue funds</i>		<i>Total Non-Major Governmental Funds</i>
	<i>Local Street</i>	<i>Street and Bridge</i>	
ASSETS			
Cash	\$ 163,562	\$ 333,869	\$ 497,431
Receivables	95	-	95
Prepaid expenses	823	-	823
Due from other funds	303	160,000	160,303
Due from other governmental units	12,348	-	12,348
<i>Total assets</i>	<u>\$ 177,131</u>	<u>\$ 493,869</u>	<u>\$ 671,000</u>
LIABILITIES AND FUND BALANCE			
<i>Liabilities</i>			
Accounts payable	\$ 3,193	\$ -	\$ 3,193
Accrued liabilities	770	-	770
Due to other funds	1,743	-	1,743
<i>Total liabilities</i>	<u>5,706</u>	<u>-</u>	<u>5,706</u>
<i>Fund balance, unrestricted</i>	<u>171,425</u>	<u>493,869</u>	<u>665,294</u>
<i>Total liabilities and fund balance</i>	<u>\$ 177,131</u>	<u>\$ 493,869</u>	<u>\$ 671,000</u>

City of Otsego

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - Non-Major Governmental Funds**

Year ended June 30, 2004

	<i>Special revenue funds</i>		<i>Total Non-Major Governmental Funds</i>
	<i>Local Street</i>	<i>Street and Bridge</i>	
REVENUES			
State grants	\$ 79,782	\$ -	\$ 79,782
Intergovernmental	-	109,972	109,972
Interest	883	8,092	8,975
Other	773	-	773
<i>Total revenues</i>	<u>81,438</u>	<u>118,064</u>	<u>199,502</u>
EXPENDITURES			
Public works	<u>70,604</u>	<u>-</u>	<u>70,604</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>10,834</u>	<u>118,064</u>	<u>128,898</u>
OTHER FINANCING SOURCES (USES)			
Operating transfer in	30,000	-	30,000
Operating transfer out	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
<i>Total other financing sources (uses)</i>	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>40,834</u>	<u>88,064</u>	<u>128,898</u>
FUND BALANCE - BEGINNING OF YEAR	<u>130,591</u>	<u>405,805</u>	<u>536,396</u>
FUND BALANCE - END OF YEAR	<u>\$ 171,425</u>	<u>\$ 493,869</u>	<u>\$ 665,294</u>

City of Otsego
BALANCE SHEETS - governmental funds
June 30, 2004

	<i>General Fund</i>	<i>Major Street Fund</i>
ASSETS		
Cash	\$ 655,424	\$ 145,598
Receivables:		
Taxes	1,012	
Special assessments	-	-
Accounts	28,266	-
Interest	333	-
Prepaid expenses	31,174	824
Due from other funds	133,207	185
Due from component unit	131	-
Due from other governmental units	<u>52,440</u>	<u>36,575</u>
<i>Total assets</i>	<u><u>\$ 901,987</u></u>	<u><u>\$ 183,182</u></u>
LIABILITIES AND FUND BALANCE		
<i>Liabilities</i>		
Accounts payable	\$ 121,885	\$ 3,503
Accrued liabilities	38,453	924
Due to other funds	9,671	1,172
Due to other governmental units	15,378	-
Due to component unit	118	-
Customer deposits	12,210	-
Deferred revenue	<u>127,691</u>	<u>-</u>
<i>Total liabilities</i>	<u>325,406</u>	<u>5,599</u>
<i>Fund balance</i>		
Reserved for building inspections	3,189	-
Unreserved:		
Designated for fire truck	40,000	-
Undesignated	<u>533,392</u>	<u>177,583</u>
<i>Total fund balance</i>	<u>576,581</u>	<u>177,583</u>
<i>Total liabilities and fund balance</i>	<u><u>\$ 901,987</u></u>	<u><u>\$ 183,182</u></u>

<i>Local Street Fund</i>	<i>Street and Bridge Fund</i>	<i>Special Assessment Capital Project Fund</i>
\$ 163,562	\$ 333,869	\$ 219,152
-	-	131,495
-	-	-
95	-	401
823	-	-
303	160,000	-
-	-	-
12,348	-	-
<u>\$ 177,131</u>	<u>\$ 493,869</u>	<u>\$ 351,048</u>
\$ 3,193	\$ -	\$ -
770	-	-
1,743	-	-
-	-	-
-	-	-
-	-	-
-	-	131,495
<u>5,706</u>	<u>-</u>	<u>131,495</u>
-	-	-
-	-	-
171,425	493,869	219,553
<u>171,425</u>	<u>493,869</u>	<u>219,553</u>
<u>\$ 177,131</u>	<u>\$ 493,869</u>	<u>\$ 351,048</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL -General Fund***Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES			
Taxes	\$ 1,233,525	\$ 1,237,447	\$ 3,922
Federal grants	-	460	460
State grants	435,700	408,054	(27,646)
Fines and forfeitures	15,000	17,326	2,326
Licenses and permits	56,750	82,815	26,065
Intergovernmental	82,000	72,170	(9,830)
Charges for services	38,000	40,671	2,671
Interest and rentals	17,255	10,552	(6,703)
Other	318,825	328,660	9,835
<i>Total revenues</i>	<u>2,197,055</u>	<u>2,198,155</u>	<u>1,100</u>
EXPENDITURES			
Legislative	<u>9,700</u>	<u>7,275</u>	<u>2,425</u>
General government:			
City manager	88,130	77,167	10,963
Elections	1,000	1,336	(336)
Assessor	21,550	18,917	2,633
Board of review	700	705	(5)
Treasurer/finance director	183,155	179,589	3,566
Building and grounds	42,395	43,703	(1,308)
Cemetery	56,285	51,785	4,500
Other administration	117,720	112,739	4,981
<i>Total general government</i>	<u>510,935</u>	<u>485,941</u>	<u>24,994</u>
Public safety:			
Police	704,680	678,434	26,246
Fire	141,565	136,575	4,990
Building inspections	28,865	28,194	671
<i>Total public safety</i>	<u>875,110</u>	<u>843,203</u>	<u>31,907</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL -General Fund (Continued)**

Year ended June 30, 2004

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)			
Public works:			
Department of public works	\$ 66,510	\$ 66,461	\$ 49
General services	222,760	226,196	(3,436)
Sidewalks	4,745	3,273	1,472
Recycling	42,875	36,839	6,036
Transfer station	50,475	51,789	(1,314)
<i>Total public works</i>	<u>387,365</u>	<u>384,558</u>	<u>2,807</u>
Community and economic development	<u>1,300</u>	<u>4</u>	<u>1,296</u>
Recreation and culture:			
Parks and recreation	103,345	86,174	17,171
Community center	10,355	6,490	3,865
<i>Total recreation and culture</i>	<u>113,700</u>	<u>92,664</u>	<u>21,036</u>
Debt service:			
Principal	<u>15,335</u>	<u>15,333</u>	<u>2</u>
Capital outlay	<u>339,785</u>	<u>258,636</u>	<u>81,149</u>
<i>Total expenditures</i>	<u>2,253,230</u>	<u>2,087,614</u>	<u>165,616</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(56,175)	110,541	166,716
FUND BALANCE - BEGINNING OF YEAR	<u>466,040</u>	<u>466,040</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 409,865</u>	<u>\$ 576,581</u>	<u>\$ 166,716</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Major Street Fund***Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES			
State grants	\$ 186,000	\$ 216,197	\$ 30,197
Intergovernmental	20,000	15,520	(4,480)
Interest	5,000	1,403	(3,597)
<i>Total revenues</i>	<u>211,000</u>	<u>233,120</u>	<u>22,120</u>
EXPENDITURES			
Public works:			
Surface maintenance	6,965	3,090	3,875
Sweeping	5,700	4,271	1,429
Shoulder maintenance	725	108	617
Trees and shrubs	5,580	9,078	(3,498)
Drainage	5,540	8,431	(2,891)
Roadside cleanup	17,785	15,198	2,587
Bridge maintenance	835	2,145	(1,310)
Traffic signs and signals	8,940	5,844	3,096
Pavement marking	5,040	623	4,417
Winter maintenance	25,930	18,221	7,709
Administration	8,505	12,212	(3,707)
State trunkline maintenance	29,875	18,292	11,583
Construction	452,500	455,000	(2,500)
<i>Total expenditures</i>	<u>573,920</u>	<u>552,513</u>	<u>21,407</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(362,920)	(319,393)	43,527
FUND BALANCE - BEGINNING OF YEAR	<u>496,976</u>	<u>496,976</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 134,056</u>	<u>\$ 177,583</u>	<u>\$ 43,527</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Local Street Fund***Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES			
State grants	\$ 64,000	\$ 79,782	\$ 15,782
Interest	1,000	883	(117)
Other	-	773	773
<i>Total revenues</i>	<u>65,000</u>	<u>81,438</u>	<u>16,438</u>
EXPENDITURES			
Public works:			
Surface maintenance	8,055	4,038	4,017
Contracts	8,100	5,891	2,209
Shoulder maintenance	1,650	16	1,634
Trees and shrubs	14,970	15,672	(702)
Drainage	5,770	9,091	(3,321)
Roadside cleanup	20,390	14,846	5,544
Grass and weed control	355	347	8
Traffic signs and signals	3,655	559	3,096
Pavement marking	3,150	(14)	3,164
Winter maintenance	16,640	13,971	2,669
Administration	10,910	6,187	4,723
<i>Total expenditures</i>	<u>93,645</u>	<u>70,604</u>	<u>23,041</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,645)	10,834	39,479
OTHER FINANCING SOURCES			
Transfer from Street and Bridge Fund	<u>30,000</u>	<u>30,000</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	1,355	40,834	39,479
FUND BALANCE - BEGINNING OF YEAR	<u>130,591</u>	<u>130,591</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 131,946</u>	<u>\$ 171,425</u>	<u>\$ 39,479</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - *Street and Bridge Fund***

Year ended June 30, 2004

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES			
Intergovernmental	\$ 100,000	\$ 109,972	\$ 9,972
Interest	<u>4,000</u>	<u>8,092</u>	<u>4,092</u>
<i>Total revenues</i>	<u>104,000</u>	<u>118,064</u>	<u>14,064</u>
 OTHER FINANCING USES			
Transfer to Local Street Fund	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
 EXCESS OF REVENUES OVER OTHER USES	 74,000	 88,064	 14,064
 FUND BALANCE - BEGINNING OF YEAR	 <u>405,805</u>	 <u>405,805</u>	 <u>-</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 479,805</u>	 <u>\$ 493,869</u>	 <u>\$ 14,064</u>

City of Otsego

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCE - BUDGET AND ACTUAL - *Special Assessment Capital Project fund*

Year ended June 30, 2004

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES			
Interest	\$ 6,650	\$ 5,307	\$ (1,343)
Other - special assessment revenue	<u>19,700</u>	<u>21,804</u>	<u>2,104</u>
<i>Total revenues</i>	26,350	27,111	761
FUND BALANCE - BEGINNING OF YEAR	<u>192,442</u>	<u>192,442</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 218,792</u></u>	<u><u>\$ 219,553</u></u>	<u><u>\$ 761</u></u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET TO ACTUAL - Sewer Fund***Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
OPERATING REVENUES			
Charges for services	\$ 635,225	\$ 574,615	\$ (60,610)
Delinquent penalties	10,000	10,485	485
Other	-	1,790	1,790
<i>Total operating revenues</i>	<u>645,225</u>	<u>586,890</u>	<u>(58,335)</u>
OPERATING EXPENSES			
Mains	64,540	65,993	(1,453)
Wastewater treatment plant	243,380	254,378	(10,998)
Administration	58,670	65,663	(6,993)
Depreciation	96,600	102,627	(6,027)
<i>Total operating expenses</i>	<u>463,190</u>	<u>488,661</u>	<u>(25,471)</u>
OPERATING INCOME	<u>182,035</u>	<u>98,229</u>	<u>(83,806)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	20,000	10,757	(9,243)
Interest expense	(38,910)	(38,910)	-
<i>Total nonoperating revenues (expenses)</i>	<u>(18,910)</u>	<u>(28,153)</u>	<u>(9,243)</u>
<i>Change in net assets</i>	163,125	70,076	(93,049)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>3,776,761</u>	<u>3,776,761</u>	<u>-</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 3,939,886</u>	<u>\$ 3,846,837</u>	<u>\$ (93,049)</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET TO ACTUAL - Water Fund***Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
OPERATING REVENUES			
Charges for services	\$ 384,330	\$ 368,242	\$ (16,088)
Hydrant rentals	6,370	6,370	-
Delinquent penalties	6,000	3,456	(2,544)
Other	-	2,623	2,623
	<u>396,700</u>	<u>380,691</u>	<u>(16,009)</u>
<i>Total operating revenues</i>			
OPERATING EXPENSES			
Mains	123,145	153,301	(30,156)
Water pumping	101,775	108,765	(6,990)
Administration	55,365	46,118	9,247
Depreciation	42,900	54,347	(11,447)
	<u>323,185</u>	<u>362,531</u>	<u>(39,346)</u>
<i>Total operating expenses</i>			
OPERATING INCOME	<u>73,515</u>	<u>18,160</u>	<u>(55,355)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	7,000	2,731	(4,269)
Interest expense	(9,875)	(9,875)	-
	<u>(2,875)</u>	<u>(7,144)</u>	<u>(4,269)</u>
<i>Total nonoperating revenues (expenses)</i>			
<i>Change in net assets</i>	70,640	11,016	(59,624)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>1,962,950</u>	<u>1,962,950</u>	<u>-</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 2,033,590</u>	<u>\$ 1,973,966</u>	<u>\$ (59,624)</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET TO ACTUAL - Land Development Fund***Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
OPERATING REVENUES			
Sale of developed lots	\$ 500,000	\$ 236,336	\$ (263,664)
OPERATING EXPENSES			
Cost of developed lots	-	161,625	(161,625)
Contracts	-	1,095	(1,095)
Engineering	5,000	-	5,000
Legal expense	2,000	3,026	(1,026)
Advertising	1,500	132	1,368
Property taxes	38,500	37,231	1,269
<i>Total operating expenses</i>	<u>47,000</u>	<u>203,109</u>	<u>(156,109)</u>
OPERATING INCOME	<u>453,000</u>	<u>33,227</u>	<u>(107,555)</u>
NONOPERATING REVENUES			
Interest income	1,000	236	(764)
Interest expense	<u>(35,667)</u>	<u>(28,113)</u>	<u>7,554</u>
<i>Total nonoperating revenues</i>	<u>(34,667)</u>	<u>(27,877)</u>	<u>6,790</u>
<i>Change in net assets</i>	418,333	5,350	(100,765)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>522,793</u>	<u>522,793</u>	<u>-</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 941,126</u>	<u>\$ 528,143</u>	<u>\$ (100,765)</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET TO ACTUAL - DPW Equipment Fund***Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
OPERATING REVENUES			
Equipment rental	\$ 160,000	\$ 133,915	\$ (26,085)
Reimbursements	<u>-</u>	<u>10,996</u>	<u>10,996</u>
<i>Total operating revenues</i>	<u>160,000</u>	<u>144,911</u>	<u>(15,089)</u>
OPERATING EXPENSES			
Equipment pool operations	104,030	85,032	18,998
Depreciation	<u>43,000</u>	<u>60,043</u>	<u>(17,043)</u>
<i>Total operating expenses</i>	<u>147,030</u>	<u>145,075</u>	<u>1,955</u>
OPERATING INCOME	<u>12,970</u>	<u>(164)</u>	<u>(13,134)</u>
NONOPERATING REVENUES			
Interest income	2,000	686	(1,314)
Gain on sale of fixed assets	<u>19,500</u>	<u>9,000</u>	<u>(10,500)</u>
<i>Total nonoperating revenues</i>	<u>21,500</u>	<u>9,686</u>	<u>(11,814)</u>
<i>Change in net assets</i>	<u>34,470</u>	<u>9,522</u>	<u>(24,948)</u>
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>405,815</u>	<u>405,815</u>	<u>-</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 440,285</u>	<u>\$ 415,337</u>	<u>\$ (24,948)</u>

City of Otsego
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
Agency Fund - Trust and Agency
Year ended June 30, 2004

	<i>Balance July 1, 2003</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance June 30, 2004</i>
ASSETS				
Cash	\$ 8,058	\$ 3,478,470	\$ 3,485,031	\$ 1,497
Receivables - taxes	<u>2,615</u>	<u>3,563,992</u>	<u>3,563,901</u>	<u>2,706</u>
<i>Total assets</i>	<u>\$ 10,673</u>	<u>\$ 7,042,462</u>	<u>\$ 7,048,932</u>	<u>\$ 4,203</u>
LIABILITIES				
Accounts payable	\$ 1	\$ 124,130	\$ 124,131	\$ -
Due to other governmental units	2,735	6,911,607	6,911,636	2,706
Customer deposits	<u>7,937</u>	<u>6,725</u>	<u>13,165</u>	<u>1,497</u>
<i>Total liabilities</i>	<u>\$ 10,673</u>	<u>\$ 7,042,462</u>	<u>\$ 7,048,932</u>	<u>\$ 4,203</u>

City of Otsego
BALANCE SHEET - Otsego Downtown Development Authority
June 30, 2004

ASSETS

Cash	\$ 312,781
Restricted cash	43,323
Prepaid expenses	636
Due from other funds	<u>118</u>
<i>Total assets</i>	<u><u>\$ 356,858</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 90,668
Retainages payable	43,323
Accrued liabilities	376
Due to other funds	<u>420</u>
<i>Total liabilities</i>	<u>134,787</u>

Fund balance, unrestricted

	<u>222,071</u>
<i>Total liabilities and fund balance</i>	<u><u>\$ 356,858</u></u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - *Downtown Development Authority****Year ended June 30, 2004*

	<i>Amended Budget</i>	<i>Actual</i>	<i>Variance favorable (unfavorable)</i>
REVENUES			
Tax increment financing	\$ 350,000	\$ 358,981	\$ 8,981
Memorial tree program	2,000	375	(1,625)
Interest income	7,000	4,873	(2,127)
Other	-	465	465
	<u> </u>	<u> </u>	<u> </u>
<i>Total revenues</i>	<u>359,000</u>	<u>364,694</u>	<u>5,694</u>
EXPENDITURES			
Public works - District administration	99,355	60,070	39,285
Capital outlay	<u>1,007,000</u>	<u>868,574</u>	<u>138,426</u>
	<u> </u>	<u> </u>	<u> </u>
<i>Total expenditures</i>	<u>1,106,355</u>	<u>928,644</u>	<u>177,711</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(747,355)	(563,950)	(172,017)
FUND BALANCE - BEGINNING OF YEAR	<u>786,021</u>	<u>786,021</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 38,666</u>	<u>\$ 222,071</u>	<u>\$ (172,017)</u>